

CHANGING ROLE OF THE ACCOUNTING PROFESSION

1.1 INTRODUCTION

Four recent developments provide a significant insight on how the changes in technology as well as sociopolitical factors are altering the traditional roles performed by the accounting profession. The first of these four incidents involves the journal published by the Institute of Management Accountants (IMA). The journal was called *Management Accounting* for several decades; and in 1999 its name was changed to *Strategic Finance*. Clearly, when the flagship changes its banner, one has added incentive to notice. A 1999 study sponsored by IMA, and published under the name “Counting More, Counting Less: Transformations in the Management Accounting Profession,” notes that the very name of the profession is in the process of becoming obsolete. The old label “management accountant” is still the norm in the academic accounting literature, but it is rarely used in practice by accountants themselves. Those who would have been considered management accountants refer to themselves as working in finance, as analysts, business partners, business managers, or controllers, but not in accounting. The third of these telling details was described in a conference paper. At the 1999 meeting of the American Accounting Association, which represents accounting academics, one of the papers described how the national advertising by Big Five accounting firms almost entirely omits words such as “accounting” and “auditing.” According to the authors of the paper, other adjectives abound but not the phrases “certified public accounting” or “financial auditing.” Last, there seems to be a decrease in management accounting courses being required of students in the graduate MBA programs. Other courses seem to be teaching business majors about the uses of information by decision makers and managers in planning and strategic contexts. Even the courses taught by information technologists seem to be recognizing that their profession combines the word “information” and “technology.”

To better frame the changing nature of the accounting profession, this chapter starts by discussing three reports, by American Institute of Certified Public Accountants (AICPA), Institute of Management Accountants (IMA), and Association of Chartered Certified Accountants (ACCA), the British equivalent of the American certified public accountants (CPAs). The three reports show that changes taking place in the business environment are impacting the work of accountants. The first edition of this book argued that accountants must emphasize equally all three of their roles as score-keepers, attention-directors, and problem-solvers. What the three studies are saying is in fact the same: What is important is not only keeping score, but directing the attention of the management as information users to emerging issues and helping them solve problems as well as develop strategic goals.

1.2 AICPA'S VISION OF THE FUTURE

The CPA Vision Process was launched by American Institute of Certified Public Accountants to document the challenges and opportunities the accounting profession is likely to encounter by the year 2011. The AICPA's Vision, according to those who helped draft it, represents "an unprecedented, profession-wide initiative" seeking to make accountants the change facilitator for their clients and employers, in public practice, education, government, service, merchandising, or manufacturing. The statement seeks to make accountants, the proverbial bean-counters of yesterday, into the premier provider of information—and knowledge—in the new century.

The demand to formulate the CPA Vision was dictated by the pressures confronting the accounting profession, which in turn have been generated by the manifold changes that are taking place globally in every sphere involving the world of accounting and finance. "Evolutionary competence," using the term coined by this book's first edition and discussed at length in Chapter 14 of this edition, is what the AICPA Vision is seeking to help the accounting profession develop. The drafting of the statement seeking to promote evolutionary competence on the part of a profession historically seen as dronelike defenders of the status quo rather than vanguard of the organizational avant garde, was dictated by the realization that those who do not evolve end up going the way of dinosaurs, carrier pigeons, and horse buggies.

Allegedly, this exhortation to seize the opportunities inherent in a changing environment took nearly 3,500 accountants the equivalent of 21,456 hours to accomplish. The commitment of such resources was brought on not by any altruistic impulse, intellectual curiosity, or the desire to undertake introspection of the kind suggested in the philosophical maxim that an unexamined life is not worth living. Rather the task of developing a vision was undertaken by AICPA because of an economic imperative rooted in the realization that the monetary survival of the profession was dependent on developing new competencies that can respond to the demands of the information technology-driven twenty first century. Information technology is providing at the speed of light the kind of information accountants used to extract at snail's pace from their ledgers and journals. Furthermore, such instantly produced information can be tailored to the specific needs of the specific managers and their particular organizational function. Whatever the motivation, the redirection of the accounting profession sought by the AICPA is worth studying.

1.3 NATURE OF EVOLUTIONARY COMPETENCE

Accounting professionals are being asked to help their clients develop the competencies they would need to survive the future. Instead of merely keeping the books through financial statements that archive the performance score, accounting professionals are being urged to combine "insight with integrity," to help communicate "the total picture with clarity and objectivity" in order to provide value to their clients. To help earn their proverbial keep, CPAs are exhorted to render complex information into relevant knowledge meaningfully understandable to its users. Instead of playing the archival scorekeepers, accountants are urged to anticipate and to help create opportunities. Instead of just counting, accountants are being told to account for the organizational reality.

Accountants are being asked to start moving up the economic value chain. By thus migrating up the economic ladder, the accounting profession is to shift its attention away from the preparation of financial statements to providing knowledge-based products and

services. Besides commanding higher fees, the so-called knowledge-based products are likely to remain in demand, in contrast to the technology now available that lets clients obtain on their own the sort of information that accountants used to provide, such as financial statements, and instantaneous ones at that. The technology represented by the current hardware and software is making information available on demand, instead of through laborious monthly closings that used to be the preoccupation and the focus of the accounting professional ritual.

Among the activities that are unlikely to bring a greater prosperity to the accounting profession is tax preparation. Such services have reached the stage where they can largely be prepared electronically, often by the clients themselves. Tax form preparation is itself no longer a moneymaker. However, the higher economic value of this information lies in helping clients reach a better understanding of their financial position and providing them with investment and tax options. Tax professionals must shift to provide clients with such strategically useful and financially more lucrative advice.

Through additional and revitalized education and training, which could be available through the 150 hours of education that CPAs are required to take to practice, accountants can use tax services as a foundation to provide such expanded value-added services as investment services. CPAs' understanding of investment and financing strategies will add value to the services they provide to their clients. Not the preparation of the tax form itself, but services such as estate and financial planning are where higher economic benefits exist for future tax accountants. Such work is now, and in the future will be, increasingly in demand and will provide higher fees and salaries. The key to a more lucrative income is in providing services where one must use professional judgment in combination with solid values. Such services require accountants to apply strategic thinking and professional acumen. The basic services provided by yesterday's accountants, such as basic tax filing and financial statement preparation, will no longer be lucrative enough.

In the business sector, the basic services such as maintaining financial records and preparing financial statements kept accountants busy, overwhelming them to the extent that they could not step back from putting out fires to take a strategic look at the employer's current situation and future strategy. Using technology to take care of the routine but time-consuming work, accounting professionals can move up the economic value chain by providing insight and strategies designed to deliver clients higher values and to help accomplish desired outcomes. Among the activities that can serve a strategic, illuminative role rather than routine, archival roles are:

- Involvement in broader business issues
- Providing assurance services and information integrity
- Helping clients through technology competence
- Serving as management consultants
- Advising clients in financial planning
- Providing international services

1.4 EXPANDING THE SERVICES ACCOUNTANTS PROVIDE

Next, the services accountants are to provide are discussed at some length. It should be obvious that these services are very different from what accountants provided in the past. To a very large extent, they involve broader business issues. Organizations that

employ and/or consult with accountants do not exist in a vacuum. Environmental, social, political, and cultural factors have a considerable impact on organizational performance. Given this imperative, accountants, if they are to be relevant as employees or as consultants, will need to develop an understanding of the global, national, and marketplace environment. They will need to find ways in which various tangible and intangible factors can impact various types of organizational decision making and strategy formulations. Accountants must be able to make sense of the overall realities of the business environment. For this they must have technological acumen and be able to cultivate a “big picture” perspective in place of a bottom-line–focused financial reporting orientation. The development of such perspective demands an increased understanding of the economics as well the social, political, and cultural factors that impact society. No longer can accountants limit themselves to ledgers and journals, debits and credits.

(a) Assurance Services and Information Integrity

The portfolio of services provided by accountants have expanded into assurance services, and the change is not without controversy. Assurance means providing a variety of services that presumably improve and assure users about the quality of information being provided to organizational decision makers—such as the credibility of a web-based business. Such services have generated a greater income through a lucrative expansion of services CPAs provide. However, they also mean more regulatory standards and potential oversight, governmental as well as professional. It is likely that legal liabilities will increase for the profession. Beside the conflict of interest it could create for those accountants involved in public auditing, such an expansion of assurance services requires the acquisition and continuing cultivation of new skills that have been considered nontraditional accounting competencies by the profession. CPAs will not simply audit the extent to which the financial reports are in accordance with generally accepted accounting practices (GAAP); they also must provide assurance and interpretations as to the quality, accuracy, and meaning of diverse information in all settings. They are to provide quality advice to their client that can enhance their respective abilities to make decisions in relevant and all-too-often unfamiliar contexts.

(b) Technological Competence

Changing technology also provides another potentially lucrative opportunity to the accounting profession. Accountants can provide services that will enable their clients to use technology for improved decision making. Such consulting can pertain to business application processes, system integrity, knowledge management, system security, and integration of new business processes and practices. To do so, accountants will need to understand technology systems and how they can enhance the ability to process and integrate information on the part of organizations. Besides system technology, accountants must understand the nature of an organization’s mission, objectives, and business environment. By acquiring such knowledge of technology and awareness of various areas of business practice, they can help provide solutions to complex questions through integrating specialized technology with their extensive experience. They can help clients create new strategic business processes. Accountants ought to be able to advise regarding security, relevance, and reliability of information being generated and consult regarding business applications and newer business practices and processes that help generate information. But to do so, they need to

become more than archival scorekeepers of an organization that employs them or uses them as consultants.

(c) Management Consultants

Accountants provide advice regarding a host of financial and nonfinancial matters as well as the operational and strategic processes that impact the performance of organizations. While such consulting involves broad business knowledge and judgment, it also increases the potential for growth and new income opportunities. Consulting requires enhanced communication skills and additional education and training leading to new competencies. To be effective in their role as consultants, accountants must have a comprehensive set of problem-solving skills that apply to a wide range of business management and performance issues. They also will need to develop understanding about the environment within which businesses operate and be able to link internal operations and marketplace issues.

(d) Financial Planning

By using a wide range of financial information, accountants provide a variety of services to organizations and individuals that interpret and add value. These services include everything from tax planning and financial statement analysis to structuring investment portfolios and complex financial transactions. These areas will continue to be major avenues for professional involvement by accountants.

(e) International Services

Last, accountants provide services to support and facilitate trade commerce in the international marketplace. Being able to do so requires not only technical knowledge but multinational and multicultural communication skills. These services can lead to strategic alliances that provide leverage for taking advantage of opportunities available in global capital markets. Accountants also assist clients and employers moving into new foreign markets and in coping with the complexities of import and export regulations and cultures.

1.5 CORE COMPETENCIES FOR NEW SERVICES

Given the new roles accountants are expected to assume, they must be educated and trained with a focus very different from the one used to educate accountants in the past. Accountants of the twenty first century will need to develop a wide variety of skills that are markedly different from those currently emphasized in the college curriculum and continuing professional education. In some cases, the skills may be similar to the current ones, albeit with a different kind of emphasis. In recognition of the fact that accountants must actively compete with others by effectively marketing their professional talents and abilities, the AICPA's Vision Statement has specified a number of skills accountants of the future must be taught. To beat out the competition, accountants must understand how to help their employers and clients maneuver in the competitive environment by identifying strategic choices and by mobilizing resources to capitalize on opportunities in a timely manner. Accountants must understand the needs of clients, customers, or employers better than they do themselves.

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The skills AICPA wants accountants to develop include:

- Communications and leadership skills
- Strategic and critical thinking skills
- Focus on the customer, client, and market
- Interpretation of converging information
- Technological competence

(a) Communications and Leadership Skills

This category requires an ability to exchange and extract information that can then be used to make decisions. Accountants not only provide information; first they must extract and receive it. The processing of data into information requires a set of skills and technologies different from those needed for effective organizational communication. Communicating information is different from organizational communication; the latter requires appropriate delivery and interpersonal skills and for the development of the ability to actively listen, but the former calls for additional technical skills. Both kinds of communication require accountants to gain an understanding of the explicit and implied needs of their customers, clients, and employers. They must learn to ask targeted questions that probe for valuable information. They have to be able to influence, inspire, and motivate others to achieve results. Increasingly, for timeliness of communication, accountants must learn to use technology. They also need to realize that different communication skills are needed for internal and external communication. Both the informational and organizational communication mandates require accountants to use a broad range of techniques, including process consultation, teamwork, and people skills far beyond traditional written and oral skills. Given how problematic traditional written and oral skills have been for accountants, developing the broader expertise is likely to require an even greater commitment, especially when considering that information communication is different from the general form of communication circumscribed by culturally aware reading, writing, and speaking.

(b) Strategic and Critical Thinking Skills

Information providers must have the ability to make sense of data and knowledge. Doing so calls for experience and insights so that accountants can provide relevant advice for decision making in operational and strategic contexts. Instead of simply checking the bottom line while preparing financial statements for their employers, accountants will be required to focus on how the firm can add value by broadening services, which will in turn enhance income. The newer technologies will expand accountants' abilities to gather data from a wide variety of sources and increasingly provide valuable, strategic interpretations for decision making. But increased data will not mean much unless accountants are able to find the real meaning behind financial and nonfinancial information while still protecting the broader public interest. They must invent new criteria to evaluate performance in a variety of business areas. They must use strategic and critical thinking skills to pinpoint untapped areas of financial growth, opportunity, and success. They will be well off if they understand new techniques such as visioning, scenario planning, and environmental scanning to keep the focus on the desired results. These skills require both a proactive stance and future rather than archival thinking.

(c) Focus on the Customer, Client, and Market

Accountants will need to develop skills that allow them to become the eyes and ears of their employers and clients. They must be able to anticipate and meet the changing needs of clients, employers, customers, and markets better than their customers and their competitors. They must have the ability to recognize market needs and anticipate new markets as well as help in the cultivation and development of such markets. To do so, accountants must proactively and continuously investigate current and emerging market trends.

(d) Interpretation of Converging Information

As the availability of data increases, so does the pressure to interpret such data. Such interpretation must be located within a broad-based context comprising both financial and nonfinancial information. If information provided is to facilitate interpretations that are timely and of value, accountants must increasingly utilize a systems approach, including formal and informal networks, to gain information and provide interpretations and insights for effective managerial decision making. Accountants will have to develop methodologies to measure and value intangible assets, such as the knowledge, experience, and intimate modcapililnd os thomer

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within corporate America. According to this study, the 1990s led to a changed perception of management accountants in leading-edge companies in the United States. In such firms, accountants are no longer bean-counters on the outer edges of organizational decision making; instead they are seen as valued team members very much involved at the very center of the organization's strategic activity. The study, a follow-up to the IMA's first practice analysis conducted in 1995, found accelerating changes taking place in the management accounting profession.

The 1995 Practice Analysis yielded an invaluable database that ultimately was used by at least some colleges and universities to revise curricula. Beyond fulfilling its specific charge, the 1995 Practice Analysis revealed the emerging contours of a new management accounting in which practitioners were breaking out of staff positions, working on cross-functional teams, and becoming more involved in decision making. While they still performed the traditional role of scorekeepers, company historians, and controllers, they were devoting increasing amounts of time to their new roles as analysts, consultants, and business partners. The 1999 Practice Analysis sought to locate and understand the changes in the work done by management accountants and their role in their companies over the past five years. The study also wanted to learn about the changes that are likely to occur in the work done by accountants working for organizations over the next three years. The IMA Practice Analysis documents that the changes in the management accounting profession are reflecting a much broader pattern of change in the way business is done in American companies. By focusing a lens on the accounting function, the 1999 Practice Analysis, in effect, permits a glimpse of even greater change under way in corporate America in the Information Age.

The 1995 Practice Analysis described a transition occurring in the profession. In the early 1980s, management accountants held corporate staff positions. As staff accountants, they were outsiders to the central work of their companies. They were physically separated from the operating departments and had relatively little face-to-face communication with people in line positions. If a factory manager needed product cost information, he or she would send a memorandum to the management accountant on staff, who would fill the request as received, even though a good business decision might require other, more relevant information.

Management accountants were not participants in the decision-making process. Instead, they provided support for the decision makers, even though such support did not seem to be all that appreciated. Management experts have argued that accountants were called in to defend decisions already made and were often informed of key decisions after the fact. Accountants spent the bulk of their time performing the mechanical aspects of accounting—scorekeeping after the game was over. They manually entered, added, and balanced pages upon pages of numbers on multicolumn papers. Accountants also documented budgets agreed to by managers and checked expense reports, often by spending more time and resources than those being reported by employees while traveling on organizational business. They also produced inventory cost reports by trying to track all the many copies of purchase orders, and generated a variety of standardized financial statements, which often were considered less than accurate valuation of organizational assets because of the adherence to the historical cost in valuating the assets owned by the firm. They were the scorekeepers (the bean-counters) and, sometimes, the corporate cops. Fulfilling the traditional accounting role, they were the keepers of financial records, the historians of the organizational archives.

(a) Management Accounting in the Twenty-First Century

The role of management accountants is very different today. Growing numbers of management accountants spend the bulk of their time as internal consultants or business analysts within their companies. Technological advances have freed them from the mechanical aspects of accounting. They can spend less time preparing standardized reports and more time analyzing and interpreting the information they are supplying to the managers. Many have moved from the isolation of accounting departments to be physically positioned in the operating departments where they work. They work in cross-functional teams, have extensive face-to-face communications with people throughout their organizations, and are actively involved in decision making.

In the late 1980s many corporations adopted a customer focus as part of quality improvement programs. This led to management accountants being seen as service providers to their organizational customers. The underlying philosophy of this approach is that the customer is always right. Thus, if a product designer requested particular financial information from an accountant, it would be provided even if not really appropriate to the business decision being made. Since then, the role of management accountants has evolved from serving internal customers to being a business partner. A business partner is an equal member of the decision-making team. As a business partner, a management accountant has the authority and responsibility to tell an operating executive why particular types of information may or may not be relevant to the business decision at hand and is expected to suggest alternative forms of information better suited to improving the quality and usefulness of the decision.

1.7 HIGHLIGHTS OF THE INSTITUTE OF MANAGEMENT ACCOUNTANTS STUDY

The 1999 Practice Analysis results provide both a snapshot of the current state of the management accounting profession in the United States and an indicator of where the profession is heading. When compared to the baseline measures established in the 1995 Practice Analysis, the current results show ongoing and escalating changes taking place not only in the work done by management accountants but in their very role in the organization and in the value they add to organizational decision making.

(a) Providing More Value to Organizations

If bolstered by the skills required to function in the technological revolution that fostered the new information economy, management accountants' expertise is in greater demand within their organizations. Management accountants say that a growing number of people outside the finance function perceive them as providing greater value to the company than they did in the past.

(b) Not Being Perceived Negatively

In many companies, management accountants believe they are shedding the number-cruncher and bean-counter stereotypes and are instead perceived as business partners.

(c) Increased Communication with Other Departments

Management accountants spend more time communicating with people in their company today than they did five years ago. Indeed, respondents universally agree that

good interpersonal skills are essential for success. This dispels the outdated stereotype that accountants are devoid of people skills.

(d) Improved Business Decisions

In corporations where management accountants function as business partners, anecdotal evidence suggests that better business decisions are being made.

(e) Changed Work Location

Accountants traditionally worked in accounting departments that were physically isolated from the operating departments of their companies. In 1999, however, 20 percent of all respondents report that at least half the management accountants in their company have moved out of the central accounting area and are located with the operating departments they service. In larger finance organizations, 45 percent of respondents say that at least half the management accountants are located with the operating departments they service.

(f) Team Members

More than 50 percent of management accountants now work on cross-functional teams and are increasingly likely to take on leadership roles. More than 70 percent work in companies in which at least some management accountants are cross-functional team members.

1.8 HIGHLIGHTS OF THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS STUDY

The July/August 1999 issue of *Accounting and Business*, a publication of ACCA, included the results of a research study that reveals expectations about finance professionals' ability to add value to the organization that employs them. The study reveals that industry chiefs globally "are increasingly worried that their companies' key financial managers lack the skills necessary to adapt to a changing global environment." This survey commissioned by ACCA reveals that a perceived inability of finance professionals to take a broad strategic perspective and see the bigger picture is a corporate chief's greatest fear.

The key finding of the survey is the realization that the globalization of business is leading to both strategic opportunities and new anxieties. Directors are increasingly dependent on their financial experts to help them navigate through the maze of new economic, legislative, and commercial risks. The research shows that, while there is perceptible need for finance professionals to be involved in developing strategic plans, the corporate accountant's traditional role in financial reporting, taxation, and compliance has not diminished in importance. However, finance professionals are expected to do more than merely contribute number-crunching to strategic decision making and the development of corporate financial strategy. Corporate managers wish to see their finance people take on a strategic involvement well beyond scorekeeping through numbers. But the survey also reveals the critical nature of traditional financial skills; 90 percent of respondents believe that these skills will remain the foundation of strategic financial management now and in the future.

The survey consisted of in-depth telephone interviews with eighty senior executives in

Europe, China, Japan, Singapore, South Africa, and North America. Of those interviewed, 20 percent were chief executive officers, managing directors, presidents, or chairmen; 59 percent were finance directors or chief financial officers; 20 percent were human resources directors, or the equivalent.

Like its counterparts AICPA and IMA in the United States, ACCA has committed to a strongly enhanced and broadened customer focus, based on a flexible package of support for members throughout their careers, delivered through interactive training and information technology (IT). The study makes clear that once they have joined the profession, accountants are largely expected to be responsible for their own further professional development.

